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1 Christian. Those were the two that I
2 remember, but those are the two that I can
3 remember talking to about that.

4 Q. Again, I realize this was years ago, but can
5 you recall anything that either of them said
6 in terms of how they were analyzing MCP,
7 EPPI's bad debt methodology?

8 A. The only specific thing I remember was again
9 when I had provided them the actual system
10 aging reports so that they could take them
11 and put them into the AGH model and try to
12 get a sense of where we thought we needed --
13 they thought we needed to be. That's the one
14 specific thing I remember.

15 Q. Is there anything else that you can generally
16 recall about what they thought about or told
17 you about the MCP, EPPI bad debt methodology?

18 A. No. That's all.

19 Q. Do you have any understanding as to what the
20 result was of applying the AGH bad debt
21 method to the MCP account aging?

22 A. I know generally that we would have been
23 short. We definitely would have had less
24 reserves than under the AGH method.

25 Now, I don't know that from recalling

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1 specifically seeing their analysis, but
2 knowing how AGH was done and how MCP, EPPI
3 was done, I'm sure there was an adjustment
4 that needed to be made to increase the bad
5 debt reserve.

6 Q. Because it was your understanding at the time
7 that AGH had a more conservative methodology?

8 A. Yes.

9 Q. Do you have any idea what the quantitative
10 difference was between using the AGH method
11 and using the MCP, EPPI method on the MCP,
12 EPPI accounts in '96?

13 A. No. I don't know what the true dollars were.
14 Again, I recall after you said it, the \$17
15 and a half million adjustment, but I'm not
16 sure that covered the entire problem because
17 I don't remember what the magnitude of it
18 was.

19 Q. So you don't recall whether it was greater or
20 less than \$17 and a half million?

21 A. Right. That's correct.

22 Q. Now, I think the second thing you said about
23 concerns that Coopers & Lybrand expressed to
24 you in the '96 audit about the bad debt
25 methodology to the DVOG hospitals was that

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1 the loss percentages were different?

2 A. Not necessarily. They didn't like that they
3 were different because, of course, it would
4 be easier to audit one consistent bad debt
5 methodology. So I guess, yes, they had
6 concerns they were different.

7 But their biggest concern was that
8 they were not high enough to cover the bad
9 debt based on how old the receivables were.

10 Q. Who developed the loss percentages that were
11 used in '96 for the bad debt allowance at the
12 various DVOG hospitals?

13 A. Those were the methodologies that were in
14 place when we acquired the hospitals, so I'm
15 not sure who actually developed the
16 methodologies.

17 Q. Are you aware of any effort by anyone at
18 AHERF prior to the '96 audit to determine
19 whether the loss percentages that were being
20 used were appropriate?

21 A. Prior to '96 I don't recall anybody doing any
22 specific analyses on that with AHERF, but I
23 do know that most of us felt that they
24 probably weren't what they needed to be. But
25 I don't recall any specific analyses being

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1 done on what.

2 Q. When you say most of us, who are you talking
3 about?

4 A. Myself, Dan Cancelmi, Steve Spargo.

5 Q. Did you interact directly with Steve Spargo
6 on these issues?

7 A. Very rarely.

8 Q. Why did you believe that the loss percentages
9 used in '96 might not have been high enough?

10 A. Generally speaking, going back to MCP, EPPI,
11 their own methodology didn't make sense only
12 reserving self-pay for one thing. Just in
13 looking at the PATCOM agings, if an account
14 is over 270 days old, and we are only
15 reserving maybe 25 percent, it just didn't
16 seem right, that there was not in my mind a
17 75 percent likelihood that they were going --
18 you were going to collect that receivable.

19 That percentage I threw out was a --
20 I don't know if that's what it actually was.
21 I'm just giving you an example. It just
22 didn't seem we were reserving enough just
23 looking at it on the surface.

24 Q. Now, when you say that the MCP, EPPI bad debt
25 methodology didn't make sense, is that a

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1 conclusion you reached on your own, or is
2 that a result of having spoken with Coopers &
3 Lybrand?

4 A. I actually reached that on my own prior to
5 them coming in just because when you have a
6 bucket of receivables over a year old that
7 maybe half of it is insurance balance and
8 half of it patient balance, the fact we only
9 reserved the patient portion didn't seem
10 right to me. I would have thought that
11 before Coopers said anything.

12 Q. Are you aware of any consideration by anyone
13 at AHERF to change the method at MCP, EPPI
14 before the '96 audit?

15 A. Specifically, no, but I vaguely remember that
16 the issue we had talked about changing it.
17 And because of the impact that it would have
18 had on the income statement, no one ever
19 really just said let's do this. And then
20 when -- we knew it was going to be an issue
21 when Coopers came in, so we let them deal
22 with it.

23 Q. When you say that we had talked about it, is
24 that you and Mr. Cancelmi?

25 A. Yes.

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1 Q. Was anyone else involved in those
2 conversations?

3 A. I'm sure Chuck Lisman was probably involved.
4 Not always but Chuck was -- Dan normally kept
5 Chuck apprised of everything that was going
6 on.

7 Q. And the reason I think you indicated why the
8 change wasn't made was due to what you felt
9 the impact would be on the income statement?

10 A. I think it was more we -- Dan and I and
11 Chuck, whoever was involved, just felt that
12 any time you're going to adversely affect
13 earnings from an accounting change, it
14 doesn't -- it's not something that people
15 want to hear. That's just how it is.

16 So it's not that -- like Steve
17 Spargo, people were aware the issue was out
18 there, but it wasn't quantified, and no one
19 was in a big hurry, I guess, to say this is
20 the dollar impact, this is what we need to
21 do, let's deal with it.

22 We just knew that Coopers when they
23 came in would look at it, and coming from
24 them it would probably be heard louder than
25 coming from us internally.

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1 Q. Was Mr. Spargo aware of this issue with the
2 bad debt methodology at MCP, EPPI before the
3 '96 audit?

4 A. I would say yes.

5 Q. Now, as part of the '96 audit that Coopers
6 conducted, you provided them, I take it, with
7 various schedules?

8 A. Yes.

9 Q. And did those include schedules for the
10 calculation of the bad debt allowance?

11 A. Yes.

12 Q. And that included then, I take, it a schedule
13 for MCP, EPPI?

14 A. Yes.

15 Q. Did you tell Coopers anything about the
16 concerns that you had with the MCP, EPPI bad
17 debt methodology?

18 A. I know we had conversations about it. I
19 don't know if I brought it up or they brought
20 it up, but I know we openly talked about it.
21 I just don't recall specifically if I walked
22 in and said here it is, I think it's not very
23 good. I probably didn't say that exactly,
24 but we had very open conversations about it.
25 I don't recall who brought it up.

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1 Q. Do you think it's likely that that's an issue
2 that Coopers uncovered on their own and then
3 came to you?

4 A. I wouldn't necessarily say they uncovered it
5 on their own. I would say that we all -- we
6 in accounting and Coopers knew it was an
7 issue. Coopers was the one to pursue the
8 quantifying end, seeing how to fix it.

9 Q. Now, during fiscal year 1996, three of the
10 DVOG hospitals converted from the PATCOM to
11 the Invision accounting system?

12 A. Yes.

13 Q. I think you testified even before Coopers
14 came in to do the '96 audit you felt the
15 PATCOM loss percentages didn't seem right; is
16 that right?

17 A. During the '96 audit?

18 Q. Yes.

19 A. Yes, yes. I just felt, generally speaking,
20 that maybe some of the older receivables were
21 not being adequately reserved, yes.

22 Q. Is that an issue that you discussed with
23 Coopers & Lybrand?

24 A. Again, I remember specifically us discussing
25 it and working together like me providing

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1 organizations?

2 A. Yes.

3 Q. Who was the senior director?

4 A. That was Dan Cancelmi.

5 Q. And who were the chief executive officers and

6 chief operating officers of the individual

7 organizations?

8 A. They varied for each of the hospitals. The

9 hospitals all had their own chief executive

10 officers and chief operating officers. I

11 don't recall specific names of all of the

12 people that we dealt with.

13 We had monthly meetings with those

14 titled people, and we met with them and

15 explained the results. I don't remember the

16 names of everybody.

17 Q. When you say we had monthly meetings, who

18 would actually go and meet with them?

19 A. Normally it would be Dan Cancelmi, myself,

20 Jack Ellsworth and Chuck Lisman. That was

21 the normal group.

22 Q. Did you go out to Philadelphia to do this?

23 A. Yes.

24 Q. Would Mr. Morrison or members of his staff

25 also take part in these meetings?

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1 A. No.

2 Q. Were there separate monthly meetings for each

3 of the DVOG hospitals?

4 A. Yes.

5 Q. So you went out to Philadelphia for a day or

6 two and met with these various hospital

7 executives?

8 A. Yes. Usually a couple of days it took us to

9 go to each hospital and meet with them.

10 Q. Did you meet with Dr. Kaye?

11 A. No.

12 Q. He was one level above them?

13 A. Yes.

14 Q. Did you discuss issues like the bad debt

15 allowance with the hospital executives?

16 A. The allowance not necessarily. Bad debt

17 expense, yes. Most of the operations people

18 wanted to understand the bad debt expense and

19 the levels that we had been experiencing.

20 Q. Were they concerned about increasing bad debt

21 expense?

22 A. Yes.

23 Q. Did you have an understanding as to why they

24 were concerned about that?

25 A. My understanding was because it was

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1 negatively impacting their operations, their

2 results, that they had concerns as to what

3 was going on and why it was happening.

4 Q. All right. Do you see the next to last

5 bullet point under the heading of Primary

6 Responsibilities says, Managing and preparing

7 timely and accurate financial reports,

8 including revenue by payor type, bad debt

9 expense analyses, rate and volume analyses?

10 A. Yes.

11 Q. And do you believe that while you were at

12 AHERF you, in fact, prepared accurate reports

13 of revenue by payor type?

14 A. Yes.

15 Q. And did you prepare accurate reports of bad

16 debt expense analyses?

17 A. Yes.

18 Q. And did you prepare accurate reports of rate

19 and volume analyses?

20 A. Yes.

21 Q. You see the next bullet point says Managing

22 and coordinating the annual external audit of

23 the account records and financial reports of

24 the aforementioned organizations?

25 A. Yes.

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1 Q. Which organizations are those?

2 A. That would be for the eastern region

3 hospitals and the university, the portions of

4 the audit that I would be responsible for,

5 meaning patient revenue and receivables.

6 Q. What did you do in terms of coordinating the

7 annual external audit?

8 A. What I would do is we would get from

9 Coopers -- they would provide us with an

10 audit request list, which was basically a

11 list of this is what I want from you when I

12 come in for the prelim audit and for the

13 year-end audit.

14 I would get a copy of that from Chuck

15 Lisman or Dan Cancelmi and go through that

16 with my staff to make sure that everything

17 that Coopers needed was prepared and ready

18 for them when they came in to do their audit.

19 Q. Then when they actually came in, did you meet

20 with people from Coopers then?

21 A. Yes. And normally I met with whoever was in

22 charge of the patients and accounts

23 receivable portion of the audit, which was

24 normally like a first or second-year auditor.

25 Q. It would usually be a person each time?

23 (Pages 86 to 89)

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1 A. Yes.
 2 Q. Now, see under Other Accomplishments the
 3 first bullet point says, Manage the
 4 consolidation and relocation of the
 5 aforementioned revenue reporting functions
 6 from Philadelphia to Pittsburgh?
 7 A. Yes.
 8 Q. Is that what you were talking about earlier,
 9 the consolidation that occurred in 1995?
 10 A. Yes.
 11 Q. Then you see the next bullet point, Directed
 12 the integration and consolidation of all
 13 financial accounting functions associated
 14 with the acquisition of the Graduate System
 15 hospitals?
 16 A. Yes.
 17 Q. What work did you do in that regard?
 18 A. Similar to what we did in 1995. For
 19 Graduate, Mt. Sinai and Rancocas I was
 20 responsible for going to Philadelphia,
 21 meeting at the individual hospitals with the
 22 accounting staff and going through what they
 23 did as far as recording entries and closing
 24 the books and had to learn it so that I could
 25 bring the responsibility back to Pittsburgh

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1 and perform it there.
 2 Q. When was that accounting function brought
 3 back to Pittsburgh?
 4 A. I don't remember specifically. I don't
 5 remember exactly when that all happened.
 6 Q. Was the patient accounting function for the
 7 Graduate hospitals also brought back to
 8 Pittsburgh?
 9 A. Patient accounting, no.
 10 Q. That stayed out in Philadelphia?
 11 A. Yes.
 12 Q. Is that under Ron Longabucco?
 13 A. Yes.
 14 Q. Did you deal directly with him?
 15 A. Yes.
 16 Q. Did you also deal directly with the staff
 17 that reported to Ron Longabucco?
 18 A. Yes.
 19 Q. Who was that?
 20 A. Mike. Of course I don't know the last name
 21 but Mike something. That was the main person
 22 that I worked without there that reported
 23 directly to Ron.
 24 Q. Now, I think you mentioned earlier that you
 25 did have interactions with Mr. Morrison's

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1 staff?
 2 A. Yes.
 3 Q. That's primarily I think you indicated Kathy
 4 Stephans and Randy Jacobson?
 5 A. Correct.
 6 Q. What types of matters would you interact on
 7 with them?
 8 A. They would call and ask questions about
 9 financial statements, specific questions,
 10 what was going on, why was this the way it
 11 was.
 12 I also dealt a lot with Kathy and
 13 Randy on the receivable issues because once
 14 Chuck Morrison began being concerned about
 15 the negative results between bad debt and
 16 these missed contractuals, he asked Kathy and
 17 Randy to start looking at some of the
 18 detailed patient accounts just like I was in
 19 Pittsburgh to try to understand what was
 20 going on, what is happening.
 21 Q. Were there any accounting functions for which
 22 Mr. Morrison's staff had responsibility? I
 23 mean, accounting issues that they did and
 24 that you just then took their results?
 25 A. We did most -- as far as like actually

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1 recording journal entries and preparing
 2 financial statements, we in Pittsburgh were
 3 responsible for that.
 4 I know that Kathy and Randy did their
 5 own analyses in their group based on the
 6 results, but they really didn't have any
 7 direct involvement in the monthly closing
 8 process.
 9 Q. Do you see the next bullet point, the last
 10 one on the first page of your resume says,
 11 Managed the successful conversion of six
 12 hospital billing systems to SMS Invision?
 13 A. Yes.
 14 Q. I think we talked a little bit about that
 15 previously today. I'm wondering what the six
 16 hospital billing systems were that are
 17 mentioned there.
 18 A. That would be MCP, EPPI, Elkins, Bucks, St.
 19 Chris and Hahnemann.
 20 Q. I guess I get five.
 21 A. EPPI is separate.
 22 Q. I see. Okay. Got it. So those would be the
 23 DVOG hospitals?
 24 A. Yes.
 25 Q. Did you consider the conversion of those

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1 Q. Now, do you see the next column which is
2 headed Provisions IH/DNFB?
3 A. Yes.
4 Q. Is that In-house Discharge Not Final Billed?
5 A. Yes.
6 Q. Why is that column blank?
7 A. We normally did not put bad debt on accounts
8 that were still in-house or discharged not
9 final billed. I think that column was later
10 removed because we never used it.
11 Q. So the next column which is headed Total
12 seems at least on this schedule to be the
13 same as the column headed ATB; right?
14 A. It looks like it. I don't know why that is,
15 though. That's what it looks like, yes.
16 Q. The next column is headed Ending Balance;
17 right?
18 A. Yes.
19 Q. Your understanding for any given month do you
20 move along the row to get from the beginning
21 balance and then add or subtract the various
22 items in the other columns to get to the
23 ending balances?
24 A. Yes.
25 Q. If you look at the second column from the

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1 AHERF and provided to Coopers; right?
2 A. Yes.
3 Q. Now, this information here toward the bottom
4 of the schedule where it says Bad Debt
5 Flux -- and there are various entries
6 underneath that -- was that something that
7 was originally on the schedule when you
8 prepared it or added later?
9 A. That was added later.
10 Q. So if we could turn, please, to the second
11 page. Does this outpatient bad debt
12 allowance schedule generally work the same
13 way as the inpatient schedule that we were
14 just looking at?
15 A. Yes.
16 Q. So this shows that at June 30, '96, the Bucks
17 County outpatient bad debt allowance account
18 was underreserved by \$163,718?
19 A. Correct.
20 Q. I take it your approach at AHERF was, in
21 effect, to net out the inpatient and
22 outpatient 109,000 overreserve amount,
23 163,000 underreserve amount and to say
24 basically it works out?
25 A. Yes. We looked at it in total.

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1 right where it says Calculated Reserve
2 Amount --
3 A. Okay.
4 Q. -- can you tell us what that represents,
5 please?
6 A. Yes. That would be us calculating what we
7 thought the required reserve should be based
8 on the balance sheet method.
9 Q. All right. So at the end of the year I take
10 it you would compare the ending balance,
11 which here is \$2,647,782 with the required
12 amount calculated according to the balance
13 sheet method, which on this schedule is
14 \$2,537,953?
15 A. Yes.
16 Q. That's what's shown in the right-hand-most
17 column?
18 A. Yes.
19 Q. So this shows that at June 30, 1996, the
20 Bucks County inpatient bad debt allowance
21 account was overreserved by \$109,829 correct?
22 A. Correct, based on the methodology, balance
23 sheet methodology, that was being used at
24 that time.
25 Q. That's the method that you were using at

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1 MR. RYAN: Let me mark, please, as
2 Exhibit 109 the document Bates Nos. CL000997
3 through 001006.
4 ----
5 (Deposition Exhibit 109 marked for
6 identification.)
7 ----
8 BY MR. RYAN:
9 Q. Do you recognize Exhibit 109, Ms. Schaffer?
10 A. Yes.
11 Q. What is it?
12 A. This is a spreadsheet that we would have
13 provided to Coopers. This is basically our
14 aging of accounts receivable for Bucks County
15 which was also used to calculate the bad debt
16 provision.
17 Q. Is this just the schedule for the PATCOM
18 account balances?
19 A. I would say yes because all the earlier
20 balances are zero, so this would have been
21 the PATCOM stuff that was still sitting in
22 the system.
23 Q. That's because at some point during fiscal
24 year '96 the patient accounting group
25 switched over from PATCOM to Invision?

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1 A. Correct.
 2 Q. So no new patient charges were being
 3 recorded, generally speaking, in the PATCOM
 4 system?
 5 A. That's correct.
 6 Q. They would all be in individual?
 7 A. Right.
 8 MR. RYAN: Let me mark, please, as
 9 Exhibit 110 a document with Bates Nos. CL
 10 000992 through 96.
 11 ----
 12 (Deposition Exhibit 110 marked for
 13 identification.)
 14 ----
 15 BY MR. RYAN:
 16 Q. Now, I realize again there be some additions,
 17 but do you recognize the basic schedules in
 18 Exhibit 110, Ms. Schaffer?
 19 A. Yes.
 20 Q. And what are they?
 21 A. This is similar for the other schedule we
 22 looked at, 109. This is an aging of accounts
 23 receivable, and this is after the system was
 24 converted to Invision. This is the Invision
 25 piece of it. This is also where we calculate

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1 methods might have?
 2 A. They didn't tell me that, but because they
 3 always compared the DVOG hospitals to how AGH
 4 did things, I would imagine they wanted to
 5 look at the DVOG and put it into the same
 6 perspective as AGH was.
 7 Q. Now, do you see there is a note A here which
 8 says, Commercial reserve is calculated based
 9 on gross A/R less estimated contractual
 10 percentage?
 11 A. Yes.
 12 Q. That's the same 20 percent contractual
 13 allowance for commercial accounts we were
 14 talking about earlier; right?
 15 A. Yes, it is.
 16 Q. Is that note something that was already on
 17 the schedule when you provided it to Coopers?
 18 A. We would have had a similar note, but it
 19 looks like they have prettied this up a
 20 little bit and made complete sentences out of
 21 our notes, so --
 22 Q. But you were the ones who told Coopers that
 23 you were using this 80 percent rate; right?
 24 A. Yes.
 25 Q. Now, if I understand these schedules right,

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1 the provision for bad debt as well.
 2 Q. Now, do you see the schedule on the top half
 3 of the first page of Exhibit 110 there is a
 4 note which says, The reserve calculation
 5 below is based on the age by final billed
 6 date methodology?
 7 A. Yes.
 8 Q. Is that note something that was on the
 9 schedule that you provided to Coopers?
 10 A. I think we had something similar on our
 11 schedules, but I don't know if it was exactly
 12 worded. I think at the top of ours it just
 13 said age by final bill date so that the
 14 viewer or user would know how it was aged,
 15 but this looks like something Cooper might
 16 have typed in themselves.
 17 Q. Did you provide Coopers for Bucks County
 18 inpatient Invision account balances both
 19 aging schedules aged by final bill date and
 20 aging schedules aged by discharge date?
 21 A. Yes, we did, at their request.
 22 Q. Do you know why they made that request?
 23 A. I'm not sure.
 24 Q. Did they tell you that they wanted to see
 25 what quantitative impact those two aging

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1 the schedules on the first page show the bad
 2 debt allowance calculated using the balance
 3 sheet method; is that right?
 4 A. This is the balance sheet method, yes.
 5 Q. And then the schedule on the third page, page
 6 994, shows the net account balance; is that
 7 correct?
 8 A. I can't tell from the heading on here if this
 9 is the gross or the net. I'm not sure. It's
 10 either the actual agings as we keyed them in
 11 or this is the result after bad debt was
 12 taken because we provided both to Coopers.
 13 Q. Now, the last page, page 996, is the loss
 14 percentages; right?
 15 A. That's correct.
 16 Q. These are percentages that you and your
 17 colleagues at AHERF came up with; correct?
 18 A. These are not the percentages that we used in
 19 '97 based on Dan's later evaluation, but I
 20 would imagine -- and I don't recall how we
 21 developed these, but I would imagine that
 22 either we did or Coopers did by telling us to
 23 use AGH possibly. I'm not sure. I don't
 24 remember. These don't look familiar like
 25 they did in 1997.

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- 1 Q. Do you actually recall Coopers & Lybrand
2 playing any role in coming up with the loss
3 percentages used in the DVOG hospitals in
4 1996?
- 5 A. The only thing I recall again is where they
6 wanted us to use AGH as a comparison. I
7 don't recall specifically them helping us
8 develop these particular percentages.
- 9 Q. And so then are the required allowance
10 figures on the first page the result of
11 taking the account balances on the third page
12 and multiplying them by the respective loss
13 percentages on the last page?
- 14 A. If that third page is the ATB generated from
15 the system prior to bad debt, yes, that would
16 be the case. You would take those balances,
17 times the percentages on the last page to get
18 the required reserve.
- 19 Q. Now, if we look at -- let's look, for
20 example, at the first row, Medicaid, 31 to 60
21 days on the third page it says 56,157; right?
- 22 A. Which column are you in? Medicaid -- there
23 we go, 56,157, okay.
- 24 Q. If we go to the last page there is a loss
25 percentage of five percent?

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- 1 Q. They were just tracked separately?
- 2 A. Yes. They were reimbursed separately, so
3 they were tracked separately.
- 4 Q. Was the calculated bad debt allowance amount
5 for the rehab patients at Bucks County on the
6 PATCOM system in '96 the \$23,029 figure on
7 Bates 001?
- 8 A. Yes.
- 9 Q. And the next section is headed Mental Health?
- 10 A. Yes.
- 11 Q. That was again a patient class that was
12 tracked separately?
- 13 A. Yes. That's the psych department.
- 14 Q. And the calculated allowance required for the
15 mental health patients on the PATCOM system
16 at Bucks County in 1996 was \$751,386 as shown
17 on Bates 1004?
- 18 A. Correct.
- 19 Q. Is it your understanding then that the total
20 bad debt allowance required for inpatient
21 accounts at Bucks County would be the sum of
22 those three figures we just looked at on the
23 PATCOM aging schedule, Exhibit 109, plus the
24 required reserve shown on the Invision
25 schedule, Exhibit 110?

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- 1 A. Yes.
- 2 Q. If we go to the first page it says \$2,808?
- 3 A. Yes.
- 4 Q. That's five percent of \$56,157?
- 5 A. It looks like it would be. I can't do math
6 in my head. It looks close.
- 7 Q. Now, if we look at Exhibit 109, the PATCOM
8 account aging for Bucks County?
- 9 A. Yes.
- 10 Q. There is an initial section which is headed
11 Inpatient Totals. Do you see that?
- 12 A. Yes.
- 13 Q. Is it your understanding that the calculated
14 allowance required for those accounts is the
15 amount shown on the page with Bates No. 999
16 of \$650,030?
- 17 A. Yes.
- 18 Q. So now there is another section of accounts
19 called Rehab Totals?
- 20 A. Yes.
- 21 Q. Are those an additional class of patients at
22 Bucks County?
- 23 A. Yes. Those would be patients that were
24 admitted as rehab, went into the rehab part
25 of the hospital.

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- 1 A. It should be.
- 2 Q. If you wouldn't mind, since I have this
3 calculator here, if you wouldn't mind just
4 adding those four figures for me.
- 5 A. On the Bates or the 110 I'm assuming we were
6 using still the discharge date required
7 reserve. I'm not sure but I think that's
8 what we would have been using, the 1,232,158.
9 I get a total of \$2,705,698.
- 10 Q. Would you mind using the calculation by using
11 the aged billing date --
- 12 A. Sure. 2,587,049. It's close. I could have
13 keyed it in wrong.
- 14 Q. Do you mind just trying that again because
15 I'm not sure I got the same result you get.
- 16 A. Sure. 2,537,954.
- 17 Q. All right. If you compare that to the
18 calculated reserve amount of June 30, '96,
19 schedule 108, that's \$2,537,953?
- 20 A. Correct.
- 21 Q. It's just a \$1 rounding difference?
- 22 A. Yes.
- 23 Q. So is it your understanding that that was, in
24 fact, how you calculated the calculated
25 inpatient bad debt allowance amount for Bucks

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1 County as of June 30, '96?

2 A. Yes.

3 Q. By adding those four figures from Exhibits

4 109 and 110?

5 A. Yes.

6 Q. Then similarly the calculated outpatient bad

7 debt allowance amount on Exhibit 108 of

8 1,043,859 should be the sum of the required

9 outpatient amounts in the bad debt allowance

10 calculations for PATCOM and Invision on

11 Exhibits 109 and in the exhibit I have yet to

12 give you which I'll mark now. So let me

13 strike that and mark a new exhibit.

14 Can I mark, please, as Exhibit 111 a

15 document which Bates Nos. CL 001008 through

16 1013.

17 ----

18 (Deposition Exhibit No. 111 marked

19 for identification.)

20 ----

21 BY MR. RYAN:

22 Q. Do you recognize Exhibit 111, Ms. Schaffer?

23 A. Yes.

24 Q. What is it?

25 A. This is similar to the document labeled 110,

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1 however, this is the outpatient agings for

2 the Invision receivables.

3 Q. And this is also a Bucks County Hospital for

4 June 30, '96?

5 A. Yes.

6 Q. Are these schedules that your staff prepared?

7 A. Yes.

8 Q. And that you reviewed?

9 A. Yes.

10 Q. And that you then provided to Coopers?

11 A. Yes.

12 Q. That's the case with Exhibits -- really all

13 of Exhibits 108 through 111?

14 A. That is correct.

15 THE VIDEOGRAPHER: Hold on a minute.

16 ----

17 (There was a recess in the proceedings.)

18 ----

19 THE VIDEOGRAPHER: We are now back on

20 the record. The time on the screen is 2:34.

21 BY MR. RYAN:

22 Q. Let me just backtrack the question. There

23 was a technical problem. So are Exhibits 108

24 and 109, 110 and 111 all bad debt schedules

25 related to Bucks County that you or your

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1 staff prepared in fiscal 1996?

2 A. Yes.

3 Q. If it was somebody on your staff who prepared

4 it, you would have reviewed the schedules

5 yourself; right?

6 A. Yes.

7 Q. And you then provided these schedules to

8 Coopers for their audit?

9 A. Yes.

10 Q. Now, Exhibit 111 was the calculation for the

11 outpatient bad debt allowance account; right?

12 A. For Invision, yes.

13 Q. For Invision. Thank you. And toward the

14 back of Exhibit 109 there is a section of the

15 schedule that deals with the calculation of

16 the required bad debt allowance account for

17 the PATCOM account balances for Bucks County

18 at June 30, 1996; right?

19 A. Yes.

20 Q. And that number was \$265,616 as shown on

21 Bates 1006; right?

22 A. Yes.

23 Q. And the required amount for the outpatient

24 Invision accounts was \$778,234 as shown on

25 Exhibit 111; right?

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1 A. Yes.

2 Q. If you could add up those two amounts.

3 A. See if I can get this. \$1,043,850.

4 Q. And that's just \$9 off from the \$1,043,859

5 figure on the second page of Exhibit 108;

6 right?

7 A. Right, correct.

8 Q. Is it your understanding that was how you at

9 AHERF calculated the required bad debt

10 allowance amount for outpatient account

11 balances at Bucks County on June 30, 1996?

12 A. Yes.

13 MR. RYAN: Let me mark, please, as

14 Exhibit 112 the document at Bates Nos. CL

15 1281 through 82.

16 ----

17 (Deposition Exhibit 112 marked for

18 identification.)

19 ----

20 BY MR. RYAN:

21 Q. Now, I realize the format may have changed

22 somewhat because of the way this was printed

23 out off a computer system, but do you

24 otherwise recognize the schedule in Exhibit

25 112, Ms. Schaffer?

50 (Pages 194 to 197)

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- 1 A. Yes. And what they are, this is a roll
2 forward of Elkins Park's bad debt allowance
3 account for both inpatient and outpatient as
4 of 6-30-96.
5 Q. The way you originally prepared these, these
6 were larger but easier to read printed
7 sideways on the page?
8 A. Yes. They were landscaped.
9 Q. Do you see that the inpatient bad debt
10 allowance for Elkins Park at June 30, 1995
11 was \$613,935?
12 A. Yes.
13 Q. And June 30, '96 was \$2,132,204; right?
14 A. Yes.
15 Q. That's more than three times as much; right?
16 A. Yes.
17 Q. If you go to the next page, do you see that
18 the outpatient bad debt allowance account for
19 Elkins Park June 30, 1995, was \$565,871?
20 A. Yes.
21 Q. June 30, 1996 it was \$1,522,187; right?
22 A. Yes.
23 Q. And so that, too, is a little bit shy of
24 three times as much; right?
25 A. Correct.

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- 1 Q. Now, if I understand the schedule right, the
2 \$2,132,204 amount in the general ledger for
3 inpatient balances at June 30, 1996, was
4 \$44,666 more than the calculated amount;
5 right?
6 A. Correct.
7 Q. So here the Bucks -- Elkins Park inpatient
8 accounts were slightly overreserved?
9 A. Correct.
10 Q. Now, the next page the \$1,522,187 balance at
11 June 30, 1996, was \$44,481 less than the
12 calculated amount; right?
13 A. Correct.
14 Q. So the outpatient balances would have been
15 very slightly underreserved?
16 A. Correct.
17 Q. This is another example of what we spoke
18 about earlier that the practice at AHERF was
19 to compare the inpatient and outpatient
20 account balances put together, and here you
21 concluded the reserve amount was just about
22 right?
23 A. Correct.
24 Q. Now, do you see again on the inpatient
25 schedule, just as we saw with Exhibit 108,

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- 1 the bad debt rolled forward for Bucks County,
2 do you see that the writeoffs seem to stop in
3 October 1995?
4 A. Yes.
5 Q. Does this schedule give you any greater
6 understanding as to why that was the case?
7 A. I vaguely remember -- this is very vaguely --
8 that there was -- patient accounting did stop
9 writing off accounts at some point until they
10 was given approval by operations, but I don't
11 remember that being in '96 when they were
12 looking for operations to make the call on
13 bad debt.
14 But I just remember something vaguely
15 that patient accounting was directed to stop
16 writing off accounts. I don't know exactly
17 what the issue was in '96.
18 Q. I think when you're talking about patient
19 accounting needing approval from operational
20 folks, I think you indicated that you thought
21 that was in early fiscal '98?
22 A. I thought that was closer to the end of '97
23 or earlier in '98. So there may have been a
24 different reason in '96 we stopped --
25 Q. Okay.

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- 1 A. -- patient accounting stopped.
2 Q. We'll look later at various documents about
3 that in that second time frame.
4 A. Okay.
5 Q. Do you know what the entries are in the Other
6 column here on Exhibit 112?
7 A. Not specifically.
8 Q. Now, some of the entries in the provision
9 column here is \$1,639,176; is that right?
10 A. Yes.
11 Q. That's for just for Elkins Park inpatient;
12 right?
13 A. Yes.
14 Q. If I went and looked at bad debt expense for
15 Elkins Park in 1996, would this number here
16 in the provisions column tie to the expense
17 figure?
18 A. It should.
19 Q. Did you have any separate schedules that you
20 used to keep track of what the bad debt
21 expense totals were at the various DVOG
22 hospitals?
23 A. We used our income statement for that. I
24 didn't do any comparisons of that column to
25 the bad debt expense on the income statement,

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1 but the income statement would have been the
2 source for that number.

3 Q. For that number meaning the actual bad debt
4 expense as reported?

5 A. Correct.

6 Q. Let me mark, please, as Exhibit 113 the
7 document with Bates Nos. DC4532, page 1
8 through page 27.

9 -----
10 (Deposition Exhibit 113 marked for
11 identification.)
12 -----

13 BY MR. RYAN:

14 Q. Now, the first page of Exhibit 113 looks like
15 the same schedule we were looking at before
16 nor March 1996?

17 A. Yes.

18 Q. This one is for June '96; correct?

19 A. Right.

20 Q. So this schedule sums up the calculated
21 reserves required for the PATCOM and the
22 Invision system balances?

23 A. Yes.

24 Q. And then compares that to the amount on the
25 general ledger?

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1 BY MR. RYAN:

2 Q. Now, making again allowance for possible
3 formatting differences from the computer
4 printout, do you recognize the schedules,
5 Exhibit 114; Ms. Schaffer?

6 A. Yes.

7 Q. What are they?

8 A. This is the in and outpatient roll forwards
9 of the bad debt allowance account for St.
10 Christopher's Hospital or St. Christopher's
11 Hospital for Children at 6-30-96.

12 Q. These are schedules that you or your staff
13 prepared?

14 A. Yes.

15 Q. And that you then provided to Coopers &
16 Lybrand?

17 A. Yes.

18 Q. Do you see again that the inpatient account
19 writeoffs seem to end after October '95?

20 A. Yes.

21 Q. That's consistent with what we saw on the
22 other schedules, too; right?

23 A. Yes.

24 Q. Do you know what this entry is on the other
25 column for March '96 of \$1,133,478?

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1 A. Correct.

2 Q. This is the schedule that you or your staff
3 prepared?

4 A. Yes.

5 Q. And are the schedules that follow in Exhibit
6 113, accounts receivable, aging and bad debt,
7 allowance calculation schedules for Invision
8 and PATCOM account balances?

9 A. Yes. Yes, they are.

10 Q. They are both inpatient and outpatient
11 calculations here; right?

12 A. Yes.

13 Q. Let me mark, please, as Exhibit 1 -- strike
14 that. And are all these schedules, the
15 remaining schedules here in Exhibit 113 after
16 the first page, are those all schedules that
17 you or your staff prepared?

18 A. Yes.

19 MR. RYAN: Let me now mark as Exhibit
20 114 a document with the Bates Nos. CL1357
21 through 58.

22 -----
23 (Deposition Exhibit 114 marked for
24 identification.)
25 -----

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1 A. Not specifically.

2 MR. RYAN: Let me mark, please, as
3 Exhibit 115 the documents at Bates Nos.
4 DC4529, page 1 through page 24.

5 -----
6 (Deposition Exhibit 115 marked for
7 identification.)
8 -----

9 BY MR. RYAN:

10 Q. What are the schedules in Exhibit 115,
11 Ms. Schaffer?

12 A. The first page is the again the summary of
13 taking the PATCOM plus Invision required
14 reserves in comparison to the general ledger
15 and showing the surplus or deficit based on
16 that comparison. And all of the schedules
17 behind the summary schedule are the agings of
18 both in and outpatient accounts for Invision
19 and PATCOM and the bad debt calculation for
20 St. Christopher's Hospital.

21 Q. And did you or your staff prepare all the
22 schedules of Exhibit 115?

23 A. Yes.

24 Q. And did you provide at least all the
25 schedules after the summary page, all the

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1 schedules from pages 2 through 24 to Coopers
 2 & Lybrand?
 3 A. Yes.
 4 Q. Do you know what the adjustment to reserve of
 5 \$350,000 on the summary schedule in the first
 6 page of Exhibit 115 is?
 7 A. I don't recall.
 8 MR. RYAN: Let me mark, please, as
 9 Exhibit 116 a document with Bates No. CL1110
 10 through 1111.
 11 ----
 12 (Deposition Exhibit 116 marked for
 13 identification.)
 14 ----
 15 BY MR. RYAN:
 16 Q. Do you recognize Exhibit 116, Ms. Schaffer?
 17 A. Yes.
 18 Q. What is it?
 19 A. This is the roll forward of Hahnemann's or
 20 Center City, as it was changed at some point
 21 in time -- the roll forward of their in and
 22 outpatient bad debt allowance accounts at
 23 6-30-96.
 24 Q. And the notes and the bad debt flux at the
 25 bottom of these schedules are not items that

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1 A. Bad debt expense.
 2 Q. I see. So then would the bad debt expense
 3 for Hahnemann in a given year be the sum of
 4 the provisions column on the schedule and the
 5 net writeoff amount which is not shown here?
 6 A. Correct.
 7 Q. Why was that done differently at Hahnemann
 8 from the other DVOG hospitals?
 9 A. It again was just another way that they did
 10 their bad debt when we inherited or took over
 11 the hospitals, and it was never changed
 12 because the ultimate result was the same to
 13 bad debt expense.
 14 Q. And that wouldn't make any difference on the
 15 bad debt allowance number either, would it?
 16 A. No, it wouldn't.
 17 Q. Did you have a separate schedule where you
 18 could keep track of what the net writeoffs
 19 were at Hahnemann University Hospital?
 20 A. Yes. For all of the DVOG hospitals I had a
 21 report that we generated, a Lotus schedule
 22 that would show what all the writeoffs were
 23 by month in a given fiscal year.
 24 Q. What did that report look like?
 25 A. I don't remember exactly. It just would have

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1 were on schedules when you prepared them; is
 2 that correct?
 3 A. That's correct.
 4 Q. Now, for Hahnemann, both inpatient and
 5 outpatient there are no entries at all in the
 6 Writeoffs or Recoveries columns; is that
 7 correct?
 8 A. Yes.
 9 Q. Do you know why that is?
 10 A. I don't remember again specifically.
 11 Q. Do you recall whether --
 12 A. I do know why. I'm sorry.
 13 Q. Okay.
 14 A. Their writeoffs and recoveries went directly
 15 to the income statement, which ultimately has
 16 the same effect. Instead of hitting this
 17 account as a debt or credit and adjusting
 18 this account balance, they went directly to
 19 the income statement.
 20 So the adjustment that you would make
 21 based on the provision just wouldn't include
 22 the changes based on those two categories.
 23 Q. So when you say it went directly to the
 24 income statement, what account would writeoff
 25 at Hahnemann hit?

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1 had probably the month down the left and
 2 maybe inpatient writeoffs in one column,
 3 outpatient in another and then totals,
 4 something like that.
 5 Q. Do you recall that schedule being part of the
 6 package that you would give to Coopers &
 7 Lybrand each year during their audit?
 8 A. Specifically no. But they probably would
 9 have asked for that, and, if so, I would have
 10 given it to them because it was a useful
 11 schedule. I don't recall specifically giving
 12 it to them, no.
 13 Q. So you can't recall anyone from Coopers
 14 actually requesting that schedule?
 15 A. I can't recall that, no.
 16 Q. And you don't know whether you told Coopers
 17 that you had the schedule?
 18 A. I don't recall specifically, but I think I
 19 probably did.
 20 Q. Do you recall actually telling somebody at
 21 Coopers that?
 22 A. Again, specifically no. But based on a lot
 23 of their follow-up questions it's my
 24 inclination that I -- they may have asked me
 25 about the level of writeoffs, and I would

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1 have provided them that schedule because it
 2 was a summary of just that.
 3 Q. Is it possible that they never ended up
 4 getting that schedule, though?
 5 MR. COGAN: Objection.
 6 A. If they would have asked for something more
 7 detailed, it would have been provided.
 8 Q. You just can't recall if they asked that
 9 question or not?
 10 A. Correct.
 11 Q. Now, at Hahnemann -- strike that. At
 12 Hahnemann there is no separate column for
 13 calculated reserve amount as there was on the
 14 right for the bad debt roll forwards of the
 15 previous hospitals we looked at?
 16 A. Correct.
 17 Q. And is that because Hahnemann used the
 18 balance sheet method of calculating monthly
 19 bad debt expense?
 20 A. Yes.
 21 Q. So that the ending balance as it's shown here
 22 in Exhibit 116 should be based each month on
 23 the balance sheet method?
 24 A. That is correct.
 25 Q. So at Hahnemann you couldn't even build up

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1 surplus for deficit over the year, that was
 2 corrected each month?
 3 A. Right.
 4 Q. Whereas the other four DVOG hospitals it was
 5 corrected at the end of each fiscal year?
 6 A. Always at the end of the fiscal year. There
 7 may have been times during the year that we
 8 adjusted it as well, but it was always done
 9 for year-end audit.
 10 Q. And the bad debt allowance increased from
 11 June 30, '95, to June 30, '96, both for
 12 inpatient and outpatient accounts at
 13 Hahnemann; right?
 14 A. Yes.
 15 Q. And I can't recall whether I asked you this
 16 for St. Christopher's, so if you go back and
 17 look at Exhibit 114, if you wouldn't mind.
 18 The bad debt allowance amounts increased
 19 significantly for inpatient and outpatient
 20 account balances from June 30, '95, to June
 21 30, '96, at St. Christopher's, too; right?
 22 A. Yes.
 23 MR. RYAN: Let me mark, please, as
 24 Exhibit 117 a document with Bates Nos.
 25 CL 1097 through 1101.

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1 ----
 2 (Deposition Exhibit 117 marked for
 3 identification.)
 4 ----
 5 BY MR. RYAN:
 6 Q. Do you recognize Exhibit 117, Ms. Schaffer?
 7 A. Yes, I do.
 8 Q. What is it?
 9 A. This is Hahnemann University Hospital's
 10 inpatient bad debt calculation at 6-30-96.
 11 Q. And this shows a required reserve of
 12 \$15,058,248?
 13 A. Yes.
 14 Q. And that ties to the ending balance in the
 15 general ledger account for the Hahnemann
 16 inpatient bad debt allowance account as shown
 17 in the roll forward in Exhibit 116; right?
 18 A. Yes.
 19 Q. Do you believe that the schedules in
 20 Exhibit 117 were the basis for calculating
 21 the required bad debt allowance used in
 22 Exhibit 116?
 23 A. Yes.
 24 MR. RYAN: Let me mark, please, as
 25 Exhibit 118 the documents with Bates Nos. CL

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1 001103 through 07.
 2 ----
 3 (Deposition Exhibit 118 marked for
 4 identification.)
 5 ----
 6 BY MR. RYAN:
 7 Q. Except perhaps for the way it's printed out,
 8 portrait rather than landscape, do you
 9 recognize Exhibit 118, Ms. Schaffer?
 10 A. Yes.
 11 Q. What is it?
 12 A. This is Hahnemann University Hospital's
 13 outpatient bad debt reserve calculation for
 14 6-30-96.
 15 Q. And the required outpatient bad debt reserve
 16 according to the calculations here was
 17 \$10,227,284; right?
 18 A. Correct.
 19 Q. And that ties to within a dollar to the
 20 \$10,227,283 figure on the second page of
 21 Exhibit 116; right?
 22 A. Correct.
 23 Q. Now, do you believe that the calculations in
 24 Exhibit 118 were the basis for calculating
 25 the general ledger amount for Hahnemann

54 (Pages 210 to 213)

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1 University Hospital outpatient bad debt
2 allowance at June 30, '96?
3 A. Yes.
4 Q. And were all these schedules in Exhibit 116,
5 117 and 118 prepared by you or your staff?
6 A. Yes.
7 Q. And if they were prepared by your staff, then
8 you reviewed them?
9 A. Correct.
10 Q. And you provided them to Coopers?
11 A. Yes.
12 MR. RYAN: Let me mark, please, as
13 Exhibit 119 document at Bates No. DC4535,
14 page 2.
15 ----
16 (Deposition Exhibit 119 marked for
17 identification.)
18 ----
19 BY MR. RYAN:
20 Q. Do you recognize Exhibit 119, Ms. Schaffer?
21 A. It looks familiar, yes.
22 Q. What is it?
23 A. This is a Hahnemann University Hospital bad
24 debt reserve adjustment at June 30, 1996.
25 Q. Now, do you see the first row says Required

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1 Q. Does looking at this schedule, Exhibit 119,
2 help you to recall any more specifically what
3 that may have involved?
4 A. No, not yet.
5 Q. Is it your understanding from Exhibit 119
6 that AHERF initially had \$28,019,898 in the
7 general ledger for the inpatient and
8 outpatient bad debt allowance accounts
9 combined and then reduced those accounts by
10 \$2,734,366 to match the reserve calculation?
11 A. From this schedule, it looks like that, yes.
12 Q. And from looking at Exhibit 116, is it your
13 understanding that that reduction in the
14 general ledger amount is something that was
15 done before Coopers' year-end audit?
16 A. Yes.
17 Q. Do you know why that was done?
18 A. No. I don't recall what we were comparing to
19 here to get the \$28 million. I'm not sure
20 what that was.
21 MR. RYAN: Let me mark, please, as
22 Exhibit 120 a document at CL 001201 through
23 1203.
24 ----
25 (Deposition Exhibit 120 marked for

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1 reserve per calculation?
2 A. Yes.
3 Q. And the \$15,058,248 figure in the inpatient
4 column ties to the schedule in the first page
5 of Exhibit 116; correct?
6 A. Yes.
7 Q. And \$10,227,284 figure in the outpatient
8 column in Exhibit 119 ties except for the \$1
9 variance to the figure in the schedule on the
10 second page of Exhibit 116; right?
11 A. Yes.
12 Q. So that the total reserve required according
13 to the bad debt allowance calculation was
14 \$25,285,532; right?
15 A. Yes.
16 Q. Do you see there is a line which says CRA
17 Reserve Designated as Bad Debt Reserve?
18 A. Yes.
19 Q. And that totals \$4 million?
20 A. Yes.
21 Q. Do you remember when you looked earlier at a
22 document that referred to \$4 million in CRA
23 reserves being reclassified to Hahnemann
24 University Hospital?
25 A. Yes.

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1 identification.)
2 ----
3 BY MR. RYAN:
4 Q. Do you recognize Exhibit 120, Ms. Schaffer?
5 A. Yes.
6 Q. What is it?
7 A. This is for MCP -- MCC East Falls. It was
8 called many different things, EPPI and
9 outpatient. This is their roll forward of
10 the allowance for bad debt accounts at
11 6-30-96.
12 Q. So MCC and East Falls are both just other
13 names for what we've generally been calling
14 MCP?
15 A. Right.
16 Q. And MCP Hospital had associated with it the
17 psychiatric institute known as EPPI; right?
18 A. Correct.
19 Q. So that's why in Exhibit 120 we've got three
20 bad debt roll forwards instead of two?
21 A. That's correct.
22 Q. Does the first schedule show that MCP
23 inpatient bad debt allowance account was
24 slightly underreserved when compared to the
25 calculated required amount in the amount of

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1 \$72,432?
 2 A. Yes.
 3 Q. And does the second page then show that EPPI
 4 was under reserve in the amount of \$735,660?
 5 A. Yes.
 6 Q. Does the third page show that MCP outpatient
 7 was overreserved by \$690,831?
 8 A. Yes.
 9 Q. So within \$100,000 or so the net result of
 10 the three schedules is that MCP and EPPI had
 11 the amount of bad debt allowance called for
 12 by the calculation; right?
 13 A. Yes, correct.
 14 Q. And you or your staff prepared the schedules
 15 here in Exhibit 120; right?
 16 A. Yes.
 17 Q. And then provided them to Coopers?
 18 A. Yes.
 19 Q. Let me mark, please, as Exhibit 121 a
 20 document with Bates No. DC4534, page 1
 21 through page 8.
 22 ----
 23 (Deposition Exhibit 121 marked for
 24 identification.)
 25 ----

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1 BY MR. RYAN:
 2 Q. Do you recognize Exhibit 121, Ms. Schaffer?
 3 A. Yes, I do.
 4 Q. What is it?
 5 A. This is for MCC or MCP, as we've been calling
 6 it, the outpatient bad debt reserve
 7 calculation as of 6-30-96. I'm just looking
 8 to see if inpatient is in here as well. It
 9 looks like the inpatient is also included at
 10 6-30-96 along with EPPI.
 11 Q. Now, does the first page of Exhibit 121 show
 12 that the required bad debt allowance for MCP
 13 Hospital outpatient at June 30, 1996 was
 14 \$2,467,604?
 15 A. Yes.
 16 Q. And does that tie to the amount of the
 17 calculated reserve amount column in the bad
 18 debt roll forward in Exhibit 120?
 19 A. Yes.
 20 Q. And does page 7 of Exhibit 121 show that the
 21 calculated bad debt allowance for MCP
 22 Hospital inpatient for June 30, '96, was
 23 \$2,930,547?
 24 A. Yes.
 25 Q. Does that tie to the amount of the calculated

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1 reserve amount column on the first page of
 2 Exhibit 120?
 3 A. Yes.
 4 Q. And does page 8 of Exhibit 121 show that the
 5 calculated bad debt allowance amount for EPPI
 6 was \$1,214,576 at June 30, 1996?
 7 A. Yes.
 8 Q. And does that tie to the bad debt roll
 9 forward on the second page of Exhibit 120?
 10 A. Yes.
 11 Q. Is it your understanding then that the
 12 schedules in Exhibit 121 were the basis for
 13 the calculated bad debt allowance amounts on
 14 the roll forwards in Exhibit 120?
 15 A. Yes.
 16 Q. Did you or your staff prepare the schedules
 17 in Exhibit 121?
 18 A. Yes.
 19 Q. And did your -- if your staff prepared them,
 20 you would have reviewed them?
 21 A. Yes.
 22 Q. You then provided these schedules to Coopers
 23 for their year-end audit?
 24 A. Yes.
 25 MR. RYAN: Let me mark, please, as

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1 Exhibit 122 the document Bates No. TN RC013
 2 01853.
 3 ----
 4 (Deposition Exhibit 122 marked for
 5 identification.)
 6 ----
 7 BY MR. RYAN:
 8 Q. Do you recognize Exhibit 122, Ms. Schaffer?
 9 A. No.
 10 Q. Do you recognize the handwriting?
 11 A. Yes.
 12 Q. Whose handwriting is it?
 13 A. Dan Cancelmi's.
 14 Q. Now, do you see the first column in the top
 15 half of the schedule? It looks like it's
 16 called Unadjusted Balance?
 17 A. Yes.
 18 Q. Do you see that totals -- assuming the
 19 numbers are in thousands, you see that totals
 20 \$50,627,000?
 21 A. Yes.
 22 Q. Now, if we compare those numbers to the bad
 23 debt roll forwards that we've been looking
 24 at?
 25 A. Okay. Starting with East Falls?

56 (Pages 218 to 221)

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1 Q. Sure. Let's start with MCP or East Falls,
 2 Exhibit 120. Are the amounts that according
 3 to the schedules in Exhibit 120 are in the
 4 ending bad debt allowance account balances
 5 for MCP or EPPI, the \$2,858,115 figure on
 6 page 1 plus the \$478,916 figure on page 2
 7 plus the \$3,158,435 figure on page 3?
 8 A. What's your question? Is that the numbers?
 9 Q. Right.
 10 A. Yes.
 11 Q. For the -- here is the ending balance in the
 12 general ledger for MCP Hospital and EPPI at
 13 June 30, 1996?
 14 A. That's correct.
 15 Q. I think you'll find if we add those three
 16 figures, we'll get to at least within a
 17 thousand dollars of the unadjusted balance
 18 here in Exhibit 122?
 19 A. Can I try that?
 20 Q. Yes. Please go ahead.
 21 A. Yes. I get 6,490,466 compared to 6,496
 22 rounded on Exhibit 122.
 23 Q. So for Elkins Park, if we looked back at
 24 Exhibit 112, the general ledger balance would
 25 be the sum of \$2,132,204 on page 1 and

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1 for the bad debt allowance account should be
 2 \$15,058,248 on page 1 plus \$10,227,283 on
 3 page 2; right?
 4 A. Correct.
 5 Q. If you add those two numbers, what do you
 6 get?
 7 A. \$25,285,531.
 8 Q. Rounded to the nearest thousand that ties to
 9 the \$25,286,000 figure on Exhibit 122; right?
 10 A. Yes.
 11 Q. And then if we look at the St. Christopher's
 12 Hospital bad debt roll forwards on Exhibit
 13 114, the ending general ledger account
 14 balances for the bad debt allowance accounts
 15 should be \$5,148,754 as shown on page 1 plus
 16 \$3,524,062 as shown on page 2; right?
 17 A. Yes.
 18 Q. If you add those two numbers, what do you
 19 get?
 20 A. \$8,672,816.
 21 Q. Rounded to the nearest thousand that ties to
 22 the \$8,673,000 figure shown on Exhibit 122?
 23 A. That's correct.
 24 Q. So for all five DVOG hospitals the amounts
 25 here, the unadjusted balance column of

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1 \$1,522,187 on page 2; correct?
 2 A. Correct.
 3 Q. And if you add those figures what do you get?
 4 A. 3,654,391.
 5 Q. And again that's within a thousand dollars of
 6 the amount shown here on Exhibit 122; right?
 7 A. Correct.
 8 Q. If we take Bucks County's bad debt roll
 9 forwards in Exhibit 108, the general ledger
 10 amounts according to the roll forwards would
 11 be \$2,647,782 on page 1 and \$880,141 on
 12 page 2; right?
 13 A. Correct.
 14 Q. If you add those two numbers, what do you
 15 get?
 16 A. \$3,527,923.
 17 Q. That ties to the \$3,528,000 figure here in
 18 Exhibit 122; right?
 19 A. Yes.
 20 Q. So for Center City, that's the same as
 21 Hahnemann University Hospital; right?
 22 A. Correct.
 23 Q. So if we look at the bad debt roll forwards
 24 in Exhibit 116, according to those schedules
 25 the ending general ledger account balances

Page 225

1 Exhibit 122 tied to the bad debt roll
 2 forwards; correct?
 3 A. That's correct.
 4 Q. Did you play any roll in coming up with the
 5 bad debt allowance figure for Allegheny
 6 University at June 30, '96?
 7 A. In '96 I don't think so, but I don't recall
 8 specifically.
 9 Q. Do you recall who that would have been in the
 10 AHERF accounting department?
 11 A. At 6-30-96 that could have been a girl named
 12 Jennifer, and I don't remember her last name.
 13 Worked under Chuck Lisman, but I don't
 14 remember who did it for sure.
 15 Q. All right. Now, the second column in
 16 Exhibit 122 is headed Adjustments; right?
 17 A. Yes.
 18 Q. That shows a total -- assuming these numbers
 19 are in thousands, that shows a total of
 20 \$17,500,000; right?
 21 A. Yes.
 22 Q. Do you believe that that's the same \$17 and a
 23 half million figure we were talking about
 24 earlier this morning when you testified that
 25 it was your understanding that Mr. Beuttner

57 (Pages 222 to 225)

ROBIN SCHAFFER

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1 right?
 2 A. Yes.
 3 Q. As well as Randy Jacobson?
 4 A. Yes.
 5 Q. He was somebody that was on Mr. Morrison's
 6 staff?
 7 A. Yes.
 8 Q. Now, this memo refers to reserves that have
 9 been recorded on a monthly basis for probable
 10 health partners operating losses?
 11 A. Yes.
 12 Q. Then you see down at the bottom it says, It
 13 should be noted that the above reserves do
 14 not take into consideration AHERF's
 15 unrecorded equity interest in Health Partners
 16 we have discussed in the past?
 17 A. Yes.
 18 Q. Do you have an understanding as to what the
 19 difference was between the reserves for
 20 Health Partners operating losses and the
 21 reserves for AHERF's unreported equity
 22 interest in Health Partners?
 23 A. No.
 24 Q. If you look back at the year-end adjustment
 25 schedule, Exhibit 10, at Bates No. 1322, you

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1 other than that I'm not sure the two of these
 2 actually correlate, meaning Exhibit 124 and
 3 1322 in Exhibit 10.
 4 Q. You see there is a difference of about
 5 \$500,000 between the handwritten figure by
 6 East Falls Hospital in Exhibit 124 and the
 7 typewritten amount for the reserves already
 8 recorded?
 9 A. Your comparing the million, three -- I'm
 10 sorry. What are you comparing there?
 11 Q. I'm comparing the 1,066 -- maybe it's hard to
 12 read -- 826 dollar figure to the \$567,000
 13 figure.
 14 A. Where did you get the first 1 million figure?
 15 Q. Looking in the left margin.
 16 A. 1 million, 066 in comparison to what now?
 17 Q. The \$567,000.
 18 A. Okay.
 19 Q. Do you see there is a \$500,000 difference?
 20 A. Yes.
 21 Q. Do you see for Center City there is a
 22 \$150,000 difference between the figure in the
 23 left margin and the printed figure in the
 24 reserve already recorded?
 25 A. Yes.

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1 see we looked earlier at a row which says
 2 Record Health Partners Deficit-Randy J.?
 3 A. Yes.
 4 Q. That's Randy Jacobson in your understanding?
 5 A. Correct.
 6 Q. Was Mr. Jacobson particularly involved in the
 7 accounting for AHERF's investments and Health
 8 Partners?
 9 A. Yes, he was.
 10 Q. Why was that?
 11 MR. COGAN: Objection.
 12 A. He had the history on the arrangement with
 13 Health Partners, and he was the one that
 14 helped to educate Dan Cancelmi, I believe, on
 15 what that relationship was.
 16 Q. Does looking at Exhibit 124 refresh your
 17 recollection on how the year-end adjustments
 18 were calculated for Health Partners'
 19 operating losses as shown in the schedule in
 20 Exhibit 10?
 21 A. No, because the numbers aren't the same from
 22 what I can tell. I know that we would record
 23 the Health Partners deficit based on the
 24 prior quarter or even prior month financials.
 25 The financial statements weren't timely. But

Page 245

1 Q. Those are the same numbers as in the year-end
 2 adjustment schedule; right?
 3 A. It looks like it, yes.
 4 Q. Do you know whose handwriting this is in
 5 Exhibit 124?
 6 A. It looks like Dan Cancelmi's again.
 7 Q. So you weren't involved in determining the
 8 appropriate amounts to record for the Health
 9 Partners operating losses?
 10 A. No.
 11 Q. Going back to Exhibit 11, this exhibit refers
 12 to recording income for AHERF's investment
 13 and Health Partners using the equity method
 14 of investment; right?
 15 A. Yes.
 16 Q. Do you know when you first learned that this
 17 was an issue?
 18 A. That we didn't have it recorded?
 19 Q. Right.
 20 A. The equity? I would have to imagine it was
 21 probably in fiscal '96 sometime, but I don't
 22 recall specifically.
 23 Q. You don't recall knowing that during the '95
 24 audit, do you?
 25 A. I don't recall, no.

62 (Pages 242 to 245)

ROBIN SCHAFFER

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1 Q. Do you know anything about how the issue
2 first arose within AHERF of the need to
3 record income for the investment in Health
4 Partners?
5 A. I believe it was brought up by Randy Jacobson
6 at some point. That was Randy Jacobson
7 communicated it to Dan Cancelmi at some
8 point.
9 Q. Is that something that you think you learned
10 through Mr. Cancelmi?
11 A. It would have been, yes.
12 MR. RYAN: Let me mark, please, as
13 Exhibit 125 a document Bates No. RN RC014
14 01181.
15 ----
16 (Deposition Exhibit 125 marked for
17 identification.)
18 ----
19 BY MR. RYAN:
20 Q. Do you recognize Exhibit 125, Ms. Schaffer?
21 A. Yes.
22 Q. What is it?
23 A. This is for the Allegheny University
24 Hospitals and St. Christopher's Hospital For
25 Children. It's the statement of patient

1 after the first draft of the financial
2 statements.
3 Q. So that's the same \$17 and a half million of
4 adjustments to the DVOG bad debt allowance
5 accounts at year-end 1996 that we've spoken
6 about before?
7 A. Yes.
8 Q. Let me mark, please, as Exhibit 126 a
9 document at Bates No. CL 010584 through 85.
10 ----
11 (Deposition Exhibit 126 marked for
12 identification.)
13 ----
14 BY MR. RYAN:
15 Q. Now, I realize there are lots of check marks
16 and handwritten notations of various types,
17 but do you recognize, Ms. Schaffer, the typed
18 schedule on the first page of Exhibit 126?
19 A. Yes.
20 Q. Is this a schedule that you prepared?
21 A. Yes.
22 Q. And then provided to Coopers & Lybrand?
23 A. Yes.
24 Q. Was this intended as backup for footnote 8 in
25 the DVOG audited financial statement?

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1 accounts receivable as of June 30, '96.
2 Q. So Allegheny University Hospitals, is that
3 the four DVOG adult hospitals?
4 A. Yes.
5 Q. So the five hospitals shown on this schedule
6 are what we've been calling DVOG?
7 A. Correct.
8 Q. Did you prepare a schedule of patient
9 accounts receivable in this format on a
10 regular basis?
11 A. Yes.
12 Q. Who did you provide it to?
13 A. Dan Cancelmi would get it every month, and
14 Coopers would get this normally at prelim and
15 year-end audit.
16 Q. Now, you see there is a handwritten notation
17 in the right-hand margin?
18 A. Yes.
19 Q. Is that your handwriting?
20 A. Yes.
21 Q. Can you read that, please?
22 A. It says Includes 17.5 million.
23 Q. And do you know what that refers to?
24 A. I'm guessing it refers to the \$17 and a half
25 million of adjustments that we had recorded

1 A. Yes.
2 Q. If you look down at the last line at the
3 typed schedule, unfortunately there is a
4 three-hole punch mark that obscures some of
5 the text there. Do you know whether that row
6 originally said in its entirety bad debt
7 expense?
8 A. Yes.
9 Q. So that shows \$47,023,000 in bad debt expense
10 for the DVOG hospital plus the University in
11 fiscal year 1996?
12 A. Is this 1996? I don't see -- the total is
13 correct. I can't tell what year this is.
14 Q. All right. You'll see on the second page.
15 These I realize aren't things you prepared,
16 but you'll see some notations above the date
17 1996.
18 A. Okay, yes.
19 Q. And did you and your staff come up with the
20 figure for DVOG bad debt expense in 1996?
21 A. In preparing this schedule, yes.
22 Q. You then provided that to Coopers for their
23 audit; right. Correct?
24 MR. RYAN: Let me mark, please, as
25 Exhibit 127 the document at Bates No. CL

63 (Pages 246 to 249)

ROBIN SCHAFFER

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1 was, well, I believe Amy already knows about
 2 it, so she shouldn't be surprised when you
 3 tell her. That was my comment.
 4 Q. Is there anything else you can remember about
 5 this conversation between you and Kristen
 6 Heinlein?
 7 A. No.
 8 Q. Do you have any knowledge as to when Kristen
 9 Heinlein then brought this matter to Amy
 10 Frazier's attention?
 11 A. I don't.
 12 Q. So you don't know whether that took place
 13 already during the preliminary field work or
 14 whether it may not have occurred until the
 15 year-end field work?
 16 A. I don't know that. That's correct.
 17 Q. Apart from the conversation you were having
 18 with Amy Frazier about the valuation
 19 allowance when Mr. Cancelmi walked by and
 20 made the comment about quit beating her up,
 21 apart from that conversation did you ever
 22 speak to Amy Frazier directly about the \$50
 23 million reserve transfer?
 24 A. Not until she came back with
 25 PricewaterhouseCoopers in '98.

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1 Q. All right. But there is no other instance
 2 that you can recall in '97 when you spoke to
 3 Ms. Frazier about this?
 4 A. No.
 5 Q. And that first instance isn't really one
 6 where you spoke to her either, it's an
 7 inference you draw about how she understood
 8 Mr. Cancelmi's remark?
 9 A. That's correct.
 10 MR. COGAN: Objection.
 11 Q. Did you ever speak to Mr. Mark Kirstein about
 12 the \$50 million reserve transfer?
 13 A. No.
 14 Q. Did you ever speak to Bill Beuttner about the
 15 \$50 million reserve transfer?
 16 A. Not until he came back in '98.
 17 Q. But not back in '97?
 18 A. No.
 19 Q. Did you ever speak to Brian Christian about
 20 the \$50 million reserve transfer?
 21 A. I vaguely remember Brian Christian being down
 22 in the Clark Bar with us with the group like
 23 Keith Reabe, Chuck Lisman, Dan and myself
 24 when the \$50 million came up in
 25 drinking-a-beer conversation.

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1 Q. Can you recall anything about what was said
 2 in that conversation?
 3 A. No.
 4 Q. Do you know whether Brian Christian was even
 5 trying to actually follow the detailed
 6 accounting issues being talked about?
 7 A. We really didn't talk about it in a detailed
 8 manner. It was just again the topic of this
 9 did come up quite frequently because of the
 10 magnitude and the nature of the type of
 11 entry. We weren't talking debts and credits.
 12 It was just more, again, what about that 50,
 13 that type of conversation.
 14 Q. When you say the \$50 million reserve transfer
 15 came up frequently, you're primarily talking
 16 about conversations that were just AHERF
 17 people; right?
 18 A. Primarily.
 19 Q. Do you know whether Mr. Cancelmi was the
 20 source of the understanding that all of you
 21 in this group, you and Mr. Lisman and
 22 Mr. Reabe and Ms. Hersherberger and
 23 Mr. Ellsworth, had about Coopers & Lybrand's
 24 reaction to the \$50 million reserve transfer?
 25 A. No. It wasn't just Dan. I remember Chuck

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1 Lisman, I believe, had conversations as well
 2 with other people at Coopers about the \$50
 3 million.
 4 Q. Did Mr. Lisman tell you about his
 5 conversations with people at Coopers &
 6 Lybrand about the \$50 million?
 7 A. Generally, yes. Specifically what was said,
 8 no.
 9 Q. Can you remember anything about what
 10 Mr. Lisman told you about conversations he
 11 had with people at Coopers & Lybrand about
 12 the \$50 million reserve transfer?
 13 A. Today I can't, no.
 14 Q. Did Mr. Reabe ever tell you anything about
 15 having conversation with people at Coopers &
 16 Lybrand about the \$50 million reserve
 17 transfer?
 18 A. No.
 19 Q. How about Ms. Hersherberger?
 20 A. No.
 21 Q. How about Mr. Ellsworth?
 22 A. No.
 23 Q. Is there anyone else from AHERF who told you
 24 that he or she had conversations with Coopers
 25 & Lybrand about the \$50 million reserve

ROBIN SCHAFFER

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1 transfer apart from Mr. Cancelmi and
2 Mr. Lisman?
3 A. Not that I can recall.
4 Q. Now, I think you testified earlier this
5 morning that there was a total of
6 approximately \$99 million in reserves that
7 were transferred from Graduate to DVOG in
8 fiscal year 1997?
9 A. That's correct.
10 Q. The additional \$49 million, the ones after
11 the initial \$50 million transfer -- strike
12 that. Do you ever recall having any
13 communications with anyone from Coopers &
14 Lybrand about the full \$99 million reserve
15 transfer?
16 A. In pieces, yes. Talking about it as \$99
17 million, that did not occur until Amy came
18 back with Pricewaterhouse in '98.
19 Q. We are talking about AHERF's bankruptcy?
20 A. Yes.
21 Q. When you say in pieces, can you explain what
22 you mean?
23 A. Yes. What we talked about before, there were
24 conversations about the 50, which was part of
25 the 99. The other part of the 49 million was

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1 very specific reserves that were set up on
2 Graduate hospital and booked as restructuring
3 expense, I believe. They were not purchase
4 price adjustments.
5 There was very specific reserves that
6 were used in the \$49 million figure. And,
7 for example, I remember Amy Frazier
8 specifically asking me about Graduate's PFMA
9 reserves. It was 5 million, 50. Basically
10 why did we use that reserve, don't you need
11 it any longer, something to that effect.
12 She also questioned an MA reserve
13 that we had set up on Graduate worth a
14 million, five, because it was gone when they
15 were looking at the June '97 books general
16 ledger.
17 Q. Are there any other specific reserves that
18 you can think of that you discussed with
19 Coopers & Lybrand apart from the PFMA reserve
20 and the MA reserve?
21 A. Most likely because of the \$99 million, \$21
22 million of that was also used to adjust bad
23 debt on those roll forwards we were talking
24 about. So not only did 50 come over from
25 Graduate, but there was an additional \$21

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1 million, part of the \$99 million, that was
2 used to cover the DVOG bad debt problem
3 because that was on those roll forward
4 schedules, that would have been discussed
5 with Kristen Heinlein.
6 Q. So when you say there is an additional \$21
7 million, you're saying that in total \$71
8 million were transferred for bad debt
9 purposes?
10 A. The number actually is \$75 million that was
11 used to cover the bad debt problems, but \$71
12 million of it came from Graduate. The other
13 \$4 million came from within the DVOG
14 hospitals.
15 Q. All right. So you're saying there is the \$75
16 million of which \$50 million was what we
17 talked about earlier, the first \$50 million
18 reserve transfer from Graduate to DVOG?
19 A. Correct.
20 Q. And then you're saying there is an additional
21 \$25 million in reserves used for bad debt
22 purposes at DVOG hospitals of which \$21
23 million came from Graduate hospitals?
24 A. Correct.
25 Q. And the balance was just reclassified within

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1 DVOG hospitals?
2 A. Yes.
3 Q. Now, I think you testified just now you think
4 you would have discussed the additional \$21
5 million or \$25 million with Kristen Heinlein.
6 What I'm interested in those is whether you
7 can specifically recall discussing those
8 additional amounts with Ms. Heinlein?
9 A. Specifically, no.
10 Q. Do you even recall generally an actual
11 conversation with Ms. Heinlein about that?
12 A. No.
13 Q. Do you recall a conversation with anyone else
14 at Coopers & Lybrand about those additional
15 reserves used for bad debt purposes at the
16 DVOG hospitals in '97?
17 A. Conversations, no.
18 Q. When you say conversations, no, is there
19 anything else that you're thinking of?
20 A. I'm just thinking that it was presented along
21 with the \$50 million on that bad debt roll
22 forward schedule, and it was also footnoted
23 as part of that schedule. So it was
24 definitely identified, presented to Coopers
25 as an unusual adjustment to the bad debt

ROBIN SCHAFFER

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1 allowance account.
 2 Q. So you're thinking about the entries in the
 3 other column of the bad debt roll forwards
 4 for June '97 and the accompanying footnotes?
 5 A. Correct.
 6 Q. Are there any other documents that you
 7 provided to Coopers during the '97 audit that
 8 related to the additional \$21 or \$25 million
 9 in reserves used for bad debt purposes at
 10 DVOG?
 11 A. Yes. I believe that Coopers also received
 12 Exhibit 125 as of 6-30-97, and on this A/R
 13 analysis there were two additional line items
 14 added that showed the reserves coming from
 15 Graduate, the \$75 million.
 16 Q. If I represent to you that the June 30, '97
 17 version of your schedule of aging accounts
 18 receivables isn't anywhere in the Coopers
 19 work papers, are you sure that you provided
 20 that to them?
 21 A. They asked for it every year, so if I didn't
 22 provide it to them in '97, it would surprise
 23 me, yes.
 24 Q. Do you think you provided it to them when you
 25 gave them a whole series of A/R schedules on

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1 MR. COGAN: Objection.
 2 A. No.
 3 Q. Why not?
 4 A. Because I specifically remember an item on
 5 that schedule being highlighted and asked
 6 what it was for, and I believe Kristen is the
 7 one that asked the question.
 8 Q. What item do you remember being highlighted?
 9 A. It was under the Hahnemann column. There was
 10 a line item. It was called D-V 33/other
 11 capitation, and on Hahnemann it increased
 12 over a million dollars from the prior fiscal
 13 year to the current fiscal year.
 14 I remember a specific question as to
 15 what that was for and why it had increased.
 16 Q. You can see that increase in the D-V 33
 17 capitation account on Hahnemann at the
 18 account receivable lead schedule, too, can't
 19 you?
 20 A. Not exactly a million because you would have
 21 to add up various accounts to get to the
 22 million dollar change. It wasn't just in one
 23 general ledger account. It was in multiple
 24 accounts.
 25 Q. Okay. Well, we'll come back on Thursday

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1 a disk at the start of the year-end field
 2 work?
 3 A. No. This would have been a subsequent
 4 request, that it would have been provided
 5 separately from the original audit request
 6 files that we provided to them.
 7 Q. Do you agree that this schedule is not
 8 included among the ones that you gave Coopers
 9 on the initial disk?
 10 A. On the initial disk, yes.
 11 Q. Yes, meaning that it's --
 12 A. It's not.
 13 Q. It's not on that disk?
 14 A. Yes.
 15 Q. When you say that Coopers asked for it every
 16 year, there wasn't any kind of formalized
 17 schedule request for it?
 18 A. That's correct.
 19 Q. You're just saying that you can remember it
 20 coming up generally during Coopers' audits?
 21 A. Yes.
 22 Q. Is it possible that Coopers made a request
 23 for that schedule in '95 and '96, but that
 24 Kristen Heinlein never happened to ask for it
 25 in '97?

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1 then.
 2 A. Okay.
 3 MR. RYAN: I'll just ask one or two
 4 more questions, and we'll break for the day.
 5 MR. COGAN: Okay.
 6 BY MR. RYAN:
 7 Q. We go back to the two specific reserves that
 8 you mentioned, the PFMA reserve and the MA
 9 reserve.
 10 A. Okay.
 11 Q. I think you said that you can remember
 12 talking about how those reserves were no
 13 longer on the books of June 30, 1997;
 14 correct?
 15 A. Correct.
 16 Q. Whom from Coopers did you talk about that
 17 with?
 18 A. Amy.
 19 Q. You talked about that with anybody other than
 20 Amy Frazier?
 21 A. Not that I can recall.
 22 Q. And did you tell Amy Frazier that the
 23 reserves had been transferred to DVOG?
 24 A. No.
 25 Q. So Amy Frazier may have believed that those

ROBIN SCHAFFER

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1 reserves were being used at Graduate; right?

2 MR. COGAN: Objection.

3 A. She may have.

4 Q. Do you know of any reason why she wouldn't
5 have believed that?

6 MR. COGAN: Objection.

7 A. I would imagine that -- first of all, her
8 question wasn't were they transferred, which
9 is why I didn't tell her that. Her question

10 was do you not need them any longer? And
11 then I would imagine because of the amount,

12 \$5 million, 50, that they would have audited

13 that transaction to see where it actually

14 went, how it was recorded based on how they
15 did previous audits.

16 Q. Do you recall telling Amy Frazier anything
17 about where the PFMA or MA reserves had gone
18 to?

19 A. No.

20 MR. RYAN: Okay. Why don't we break
21 for the day.

22 THE VIDEOGRAPHER: We are now going
23 off the record. The time indicated on the
24 screen is 5:20. We will continue on June 6.
25 ----

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1 (The proceedings were adjourned at 5:20 p.m.)
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1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE

2 COUNTY OF ALLEGHENY) SS:

3 I, Claire Gross, RDR, a Court Reporter and

4 Notary Public in and for the Commonwealth of

5 Pennsylvania, do hereby certify that the witness,

6 ROBIN R. SCHAFFER, was by me first duly sworn to

7 testify to the truth; that the foregoing deposition

8 was taken at the time and place stated herein; and

9 that the said deposition was recorded

10 stenographically by me and then reduced to printing

11 under my direction, and constitutes a true record of

12 the testimony given by said witness.

13 I further certify that the inspection, reading

14 and signing of said deposition were NOT waived by

15 counsel for the respective parties and by the

16 witness.

17 I further certify that I am not a relative or

18 employee of any of the parties, or a relative or

19 employee of either counsel, and that I am in no way

20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand

22 and affixed my seal of office this 4th day of June,

23 2002.
24
25

Notary Public

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1 COMMONWEALTH OF PENNSYLVANIA) E R R A T A
2 COUNTY OF ALLEGHENY) S H E E T

3 I, ROBIN R. SCHAFFER, have read the foregoing

4 pages of my deposition given on Tuesday, June 4,

5 2002, and wish to make the following, if any,

6 amendments, additions, deletions or corrections:

7 Page/Line Should Read Reason for Change
8
9
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19

20 In all other respects, the transcript is true and
21 correct.

ROBIN R. SCHAFFER

22 Subscribed and sworn to before me this

23 _____ day of _____, 2002.
24
25

Notary Public

AKF Reference No. Cg70512

ROBIN SCHAFFER

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1 IN THE UNITED STATES DISTRICT COURT FOR THE
2 WESTERN DISTRICT OF PENNSYLVANIA

3 - - - -

4 THE OFFICIAL COMMITTEE OF)
5 UNSECURED CREDITORS OF)
6 ALLEGHENY HEALTH, EDUCATION &)
7 RESEARCH FOUNDATION,)

8 Plaintiff,)

9 -vs-)

Civil Action
No. 00-684

10 PRICEWATERHOUSECOOPERS, L.L.P.)

11 Defendant.)

12 VOLUME II

13 VIDEOTAPE DEPOSITION OF: ROBIN SCHAFFER

14 - - - -

15 DATE: June 6, 2002
16 Thursday, 9:00 a.m.

17 LOCATION: MANION McDONOUGH & LUCAS
18 14th Floor, USX Tower
19 Pittsburgh, PA 15219
20 412-232-0200

21 TAKEN BY: Defendant

22 REPORTED BY: JoAnn M. Brown, RMR
23 Notary Public
24 AKF Reference No. JB70547
25

ROBIN SCHAFFER

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1 and Fire issues, the PFMA issues, and he had a
 2 sense of what some of the issues were. It's
 3 just something I can recall from back then.
 4 Q. Are you familiar with an organization called
 5 Qualmed?
 6 A. Yes.
 7 Q. What was Qualmed?
 8 A. I don't remember.
 9 Q. Are you familiar with an organization called
 10 Greater Atlantic?
 11 A. Yes.
 12 Q. What was Greater Atlantic?
 13 A. It's my understanding Greater Atlantic was an
 14 insurance plan or insurance company that was
 15 similar to like a Medicaid-type plan. That's
 16 the most that I know about it.
 17 Q. Do you know what AHERF's relationship was with
 18 Greater Atlantic?
 19 A. Today, no. I don't recall.
 20 Q. Are you familiar with an organization called
 21 HSI?
 22 A. I've heard of it, yes.
 23 Q. Do you know what HSI was?
 24 A. Today, no.
 25 Q. Now, you mentioned, for the PFMA reserve, an

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1 amount of \$5,050,000, and then you said that
 2 you thought the total was \$7,050,000?
 3 A. Yes.
 4 Q. What happened to the other \$2 million?
 5 A. That was recorded on Parkview and City Avenue's
 6 books. Since I'm more familiar with Graduate,
 7 I knew that \$5,050,000 was put on Graduate's
 8 books.
 9 Q. So when you're talking about Graduate's books,
 10 you mean the books of The Graduate Hospital?
 11 A. By itself, yes.
 12 Q. And Mr. Adamczak and other people in his group
 13 were more familiar with the PFMA reserve at
 14 City Avenue and Parkview?
 15 A. Yes.
 16 Q. Now, I believe you testified on the first day
 17 of your deposition that you recall a
 18 conversation with Amy Frazier about the PFMA
 19 reserve?
 20 A. Yes.
 21 Q. Since you were dealing only with revenue at
 22 three of the Graduate hospitals, including The
 23 Graduate Hospital, do you believe that the
 24 conversation you had with Ms. Frazier was just
 25 about the piece of the PFMA reserve at The

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1 Graduate Hospital as opposed to the piece at
 2 City Avenue or Parkview?
 3 A. No. I think she was referring to PFMA in its
 4 entirety.
 5 Q. What can you remember about that conversation
 6 between you and Ms. Frazier?
 7 A. The only thing I remember is her coming in and
 8 asking me why we used or -- I can't remember if
 9 she said why we used it, why is the PFMA
 10 reserve gone, but the question wasn't where did
 11 it go, it was to the effect of why is it no
 12 longer on the books, and my answer was, it's my
 13 understanding we no longer need it, but I have
 14 no documentation for that; you need to see Dan
 15 Cancelmi.
 16 Q. Do you know whether Ms. Frazier did speak with
 17 Mr. Cancelmi about why the PFMA reserve was no
 18 longer on the books?
 19 A. I know that she walked down the hall towards
 20 his office, but whether or not she spoke to him
 21 at that time, I don't know.
 22 Q. Do you know whether she ever spoke with him
 23 about it?
 24 A. No.
 25 Q. Was it your understanding that she was going to

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1 speak with him about it?
 2 A. Yes.
 3 Q. Now, I think you just said that Amy Frazier
 4 didn't ask you what AHERF had done with the
 5 PFMA reserve, right?
 6 A. Right.
 7 Q. And you didn't volunteer to her what AHERF, in
 8 fact, had done, did you?
 9 A. No. She didn't ask the question, I didn't
 10 answer it, but she would have had -- it would
 11 have been easy for her to determine that
 12 herself, so there's no reason for me not to
 13 answer it or to keep it from her.
 14 Q. If Amy Frazier had asked you what AHERF had
 15 done with the PFMA reserve, what would you have
 16 said?
 17 A. I would have told her that it was transferred
 18 to DVOG and used for whatever reason it was
 19 used for.
 20 Q. Do you recall what reason the PFMA reserve was
 21 used for?
 22 A. I know that it was recorded in either May or
 23 June. I think the entry was actually made in
 24 June. I don't know if part of that went
 25 towards the \$21 million for bad debt or if part

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1 or all of it went to the \$28 million that just
 2 reduced contractual allowances. I'm not sure.
 3 Q. In any event, you knew at the time that the
 4 PFMA reserve was transferred to DVOG as part of
 5 the \$49 million, right?
 6 A. I'm sure that I did.
 7 Q. And Ms. Frazier didn't give you any indication
 8 at the time that she already knew that, did
 9 she?
 10 A. No.
 11 Q. Did you have any communications with anyone
 12 else from Coopers & Lybrand about the PFMA
 13 reserve?
 14 A. Not that I can recall.
 15 Q. Were there any other communications with
 16 Ms. Frazier other than the one that you've just
 17 told us about?
 18 A. Not that I can recall.
 19 Q. Did you have any communication with anyone from
 20 Coopers & Lybrand about the MA reserve?
 21 A. Yes.
 22 Q. Could you tell us about that, please?
 23 A. I believe when Amy came into my office on the
 24 same occasion, that she also asked about the MA
 25 reserve as well, I believe. If it wasn't that

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1 use it to either cover bad debt or contractual
 2 allowance problems.
 3 Q. So the MA reserve was part of the \$49 million?
 4 A. Yes.
 5 Q. Did Ms. Frazier give you any indication that
 6 she already knew what had been done with the MA
 7 reserve?
 8 A. No.
 9 Q. Now, the PFMA reserve and the MA reserve are
 10 just two pieces out of many pieces that
 11 altogether make up the \$49 million, right?
 12 A. Correct.
 13 Q. Can you recall discussing any of the other
 14 pieces of the \$49 million with anyone from
 15 Coopers & Lybrand?
 16 A. Not that I can recall.
 17 Q. Let me just ask you, since I think I may have
 18 forgotten to, whether you ever spoke with
 19 anyone from Coopers & Lybrand about the MA
 20 reserve apart from the one conversation with
 21 Ms. Frazier that you just told us about?
 22 A. Not that I can recall.
 23 Q. And you never had any written communications
 24 with Coopers & Lybrand about any of the \$49
 25 million in reserves from Graduate that were

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1 time, it was at a different time.
 2 Q. Can you remember anything about that
 3 conversation with Ms. Frazier about the MA
 4 reserve?
 5 A. In that conversation, I believe I would have
 6 told her that we no longer needed it, and I
 7 actually knew why, that the billing issue with
 8 MA had been resolved.
 9 Q. Okay. So that was a matter in which you may
 10 not have needed to refer Ms. Frazier to
 11 Mr. Cancelmi?
 12 A. Correct.
 13 Q. Did Ms. Frazier ask a similar question about
 14 the MA reserve as she did about the PFMA
 15 reserve, that is, why the MA reserve was no
 16 longer on Graduate's books?
 17 A. Yes.
 18 Q. Did she ask you what AHERF had done with the MA
 19 reserve?
 20 A. Not that I can recall.
 21 Q. Did you know at the time what AHERF had done
 22 with the MA reserve?
 23 A. Most likely, I did.
 24 Q. Namely?
 25 A. That we had moved it to the DVOG entities to

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1 transferred, did you?
 2 A. Written communication -- the \$21 million would
 3 have been on the bad debt roll forward
 4 schedules, so I don't know if you consider that
 5 written communication or not. I would.
 6 Q. Okay. So that \$21 million on the bad debt roll
 7 forwards, you're talking about amounts that are
 8 included in the other column and then have a
 9 footnote identifying them as a shortfall
 10 adjustment?
 11 A. Yes.
 12 Q. And they're not identifying the roll forwards
 13 any more specifically than that, are they?
 14 A. No. You know what, also, the A/R roll
 15 forward -- that A/R schedule, the big long one
 16 that we looked at the other day, that \$75
 17 million is also on that schedule on two
 18 different lines, and I believe I testified that
 19 I'm pretty sure that I gave that to Coopers as
 20 well.
 21 Q. But you can't be positive about that, right?
 22 A. No.
 23 Q. Now, you've testified that you were not very
 24 involved with the purchase price adjustments
 25 that were made at Graduate, right?

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1 June 30, 1996?

2 A. I vaguely remember Al Adamczak requesting that

3 Dan and I provide him information which I think

4 he later tried to do what you're saying, and he

5 prepared some documents on his own trying to do

6 that. I don't remember Dan and I ever coming

7 up with that number ourselves, to my knowledge.

8 Q. Now, let me ask you, if you would, please, to

9 look back at Exhibit 131 and turn to the second

10 summary schedule, the revised one on the 7th

11 page of the exhibit. If you look in the column

12 for MCP Hospital as of June 1996 --

13 A. Okay.

14 Q. -- do you see that originally there was

15 \$3,337,000 of inpatient bad debt allowance?

16 A. Yes.

17 Q. And originally there was \$3,158,731 of

18 outpatient bad debt allowance?

19 A. Yes.

20 Q. And then, as part of the \$17 and a half million

21 adjustment, an additional \$3.9 million was

22 reserved for bad debts at MCP?

23 A. Yes.

24 Q. And if you look now at the East Falls Hospital

25 schedule in Exhibit 136, Bates page 4, and if

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1 A. Yes.

2 Q. What is it?

3 A. This is a memo from Bill Gedman to Greg Snow

4 regarding the writing off of the Past Statute

5 accounts during the month of October 1996.

6 Q. All right. And Mr. Gedman is identified here

7 as a manager dash financial reporting, right?

8 A. Yes.

9 Q. And that was a group within the patient

10 financial services group, right?

11 A. Correct.

12 Q. Now, is that your handwriting down here on the

13 bottom right?

14 A. Yes.

15 Q. Could you read that for us, please?

16 A. Dan: Your copy. I reclassified this contractual

17 expense against balance sheet bad debt

18 allowance today. Should be out of P&L of

19 Monday reports. Robin. 11-8.

20 Q. So you wrote this note on November 8, 1996?

21 A. Yes.

22 Q. To Dan Cancelmi?

23 A. Yes.

24 Q. Why were you reclassifying the contractual

25 expense against the balance sheet bad debt

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1 you look at the rows for reserve at June 30,

2 1996, do you agree that the calculations in

3 Exhibit 136 do not take into account the

4 \$17 and a half million adjustment?

5 A. Yes.

6 Q. So that the shortfall that's calculated in

7 Exhibit 136 is overstated by at least that

8 amount, right?

9 A. Yes. I should say, yes, if these were the June

10 agings that were used for this. Yes.

11 Q. Right. Thank you.

12 A. That's what I'm just not sure of.

13 MR. RYAN: Let me mark, please, as

14 Exhibit 137 a one-page document with Bates No.

15 DC 2921, page 34.

16 ----

17 (Deposition Exhibit 137 marked for

18 identification.)

19 ----

20 BY MR. RYAN:

21 Q. Do you recognize Exhibit 136, Ms. Schaffer?

22 A. 137.

23 MR. COGAN: 137.

24 Q. I apologize. Do you recognize Exhibit 137,

25 Ms. Schaffer?

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1 allowance?

2 A. Normally, when an account is written off to bad

3 debt, that is where it should -- it belongs on

4 the balance sheet against the bad debt reserve,

5 not against contractual expense.

6 It's my understanding that Gregg and

7 his group wanted to track these transactions

8 through their billing system, and the only way

9 to do that was to set them up as a write-off

10 account within the billing system that

11 ultimately mapped into contractual allowances

12 on our general ledger.

13 Q. So there was a problem with the interface

14 program from the patient accounting system to

15 the general accounting system?

16 A. I wouldn't say necessarily a problem. I guess

17 we just didn't go in and change our conversion

18 table to directly point these write-offs to the

19 bad debt reserve where they belonged.

20 Q. So you went into the general accounting system

21 and put all these Past Statute and Pat Com

22 write-offs where they belonged, which is in the

23 bad debt allowance account, right?

24 A. Correct.

25 Q. And did you do that for the entirety of the